

Fairfax County Economic Index

Volume IX, Number 1

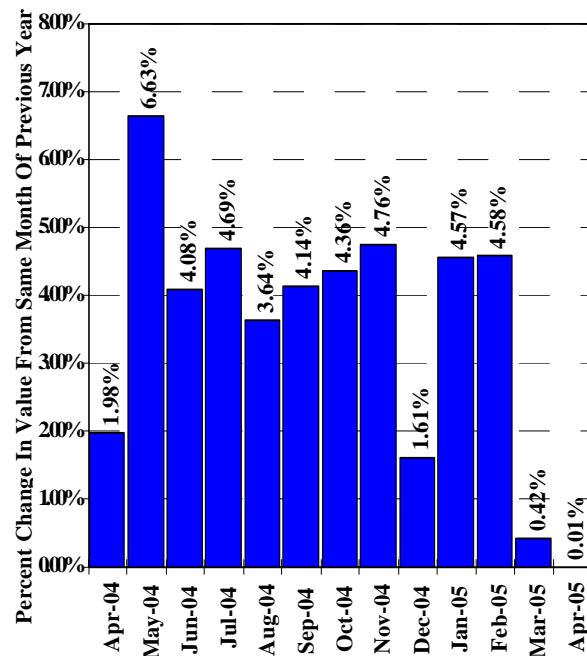
June 2005

The County's Economic Expansion Slows, Outlook Remains Good Into 2006

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 129.54 in April for a loss of 0.99 percent. With this decline, the Index has decreased three months in a row. On a monthly over-the-year basis, the Index is up only 0.01 percent (basically unchanged from March), extending its positive trend to a seventeenth consecutive month. In April, three of its four indicators were negative.

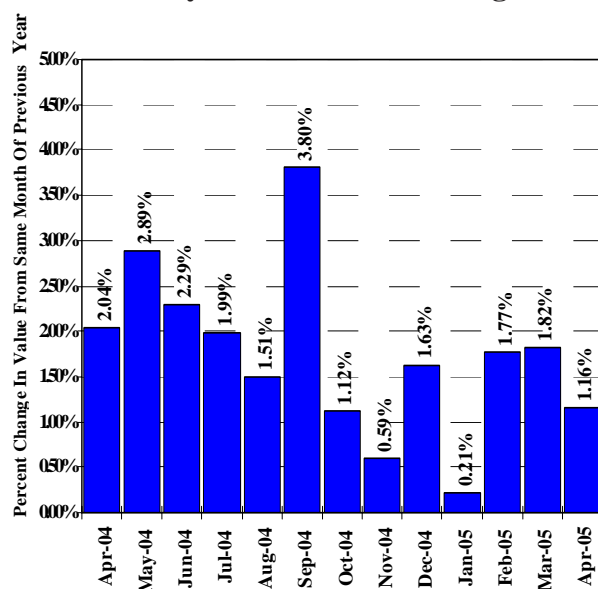
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were down for the third consecutive month;
- Consumer confidence (in the present) decreased after registering gains in the previous two months; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, declined following its sharp March increase; while,
- Total employment was up in April as job growth in the region continues to lead the nation.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University

Fairfax County Leading Index Monthly-Over-The-Year Changes



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 107.63 in April for a loss of 1.17 percent following four monthly increases. On a monthly over the year basis; however, April's Index value was up 1.16 percent and has now increased for twenty-five consecutive months. In April, all three of the Index's indicators contributed to its decline from March.

- New automobile sales decreased in April for the second time in three months;
- Initial claims for unemployment insurance increased (worsened) after improving for three months; and
- Consumer expectations (consumer confidence six months hence) fell for the third time in four months.

The Fairfax County economic expansion slowed further in April in response to weaker consumer and business confidence and spending. Still, it out-performed its April 2004 Leading and Coincident Indices with the Leading Index pointing to the expansion extending into 2006. Still, with the National economy showing signs of slowing, inflationary pressures growing and further interest rate in-

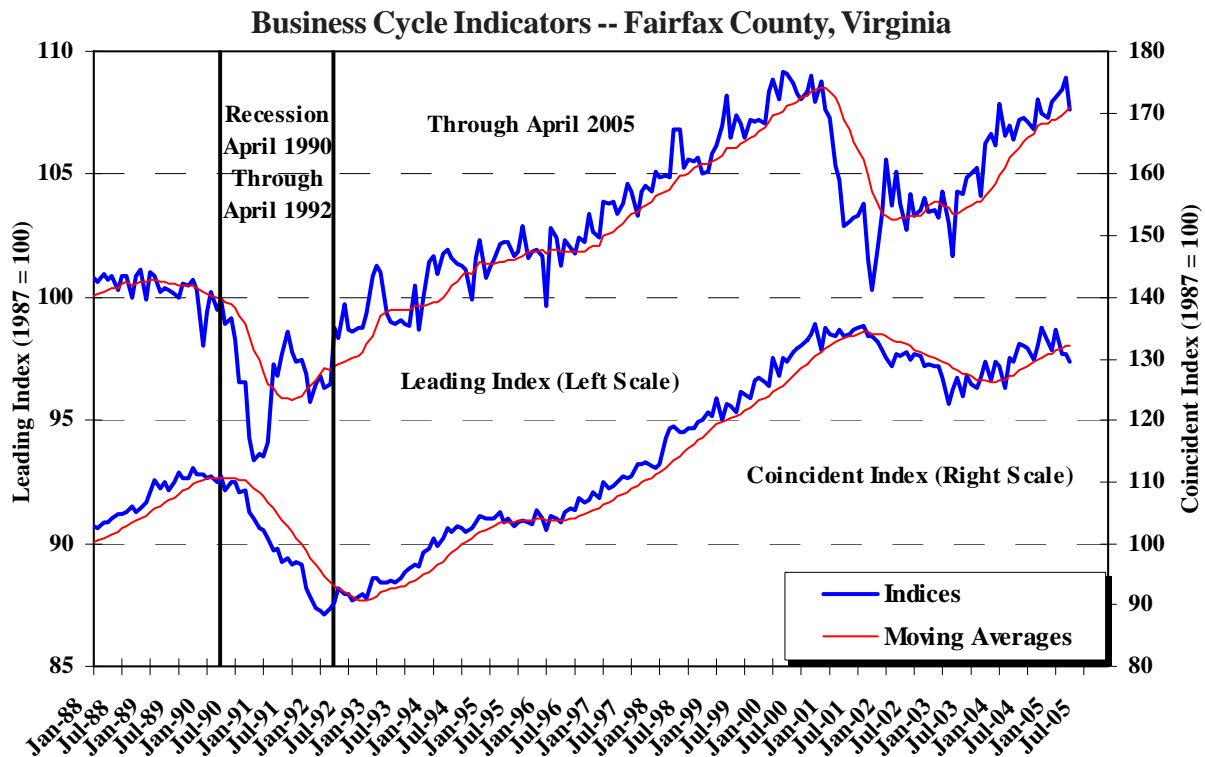
creases projected, the strength of the expansion is being tested. During 1994-1995 a somewhat similar set of mid-expansion disruptions challenged the 1991-2001 cycle. During that period the economy was flat. It then re-grouped and resumed its upward path following that mid-cycle shake out. Whether the current cycle is sufficiently strong to weather the current uncertainties will become evident later in the year as the Federal Reserve Board continues its monetary tightening and moves its discount rate higher to reduce the economy's inflationary pressures and cool the expansion to a long-term sustainable rate.

CURRENT CONDITIONS

Job growth and consumer spending continue to be the key indicators for the economy's current performance. The Washington metropolitan area continues to lead the nation in job growth with 84,500 new jobs for the April 2004 to 2005 period and a four-month average annual rate standing at 80,000 jobs. Job gains in Northern Virginia are holding close to last year's total of 53,700. With Fairfax County normally accounting for 55 to 60 percent of Northern Virginia's job gains, job growth should be approaching 30,000 in the County. However, the current job estimates for the County are not generating job numbers even close to the levels suggested by the Northern Virginia and Washington area totals. These conflicting data will eventually be sorted out as estimates are revised and become final. In the meantime, it is fair to assume that Fairfax County is generating more new jobs than are currently being estimated.

However, other labor force data reveal some softening of an otherwise tight market. Initial claims for unemployment insurance increased (worsened) in April but remain very low and the unemployment rate increased slightly reflecting growth in the labor force as more residents who had dropped out of the labor market for any reason decided to re-enter the labor market. The reasons for re-entering the labor market are led by growing job demand and rising wage rates that have made the market increasingly attractive.

Consumer spending appears to have slowed. This slowdown is reflected in lower retail sales tax collections and weaker new automobile sales. These trends are consistent with declining consumer confidence. While consumer expectations have been



Source: Center for Regional Analysis, George Mason University

declining in recent months, indicating that consumers were increasingly worried about the long-term health of the economy, consumer confidence in the present also dropped in April. Consumer anxiety is being fueled by continuing high gasoline prices and concerns about the Iraq War, Social Security, and other issues that are not directly affecting the local economy. Consumer confidence will improve when the economy proves that it is sufficiently strong to survive these challenges.

NEAR-TERM OUTLOOK

The Leading Index has been growing more slowly each month now for the last year with only a few monthly exceptions but still has exceeded same-month levels now for two full years. This performance provides a strong indication of the economy's underlying strength. With job growth peaking in 2005, reflecting two years of healthy gains, the County's Gross Regional Product growth (6.2% in 2004 and 5.2% in 2005) should be able to support growing increases in household earnings and consumer spending over the remainder of the current year and into 2006.

Still, the signs of some deceleration in the County's economic performance going forward have been apparent since the end of 2004. Key variables to watch over the next two quarters include several at the national level: interest rates, inflation as measured in changes in both consumer and producer prices, and changes in productivity and GDP. At the metropolitan level, total job growth and the unemployment rate will indicate how the area is performing relative to its major competitors; that is, whether it continues to out-perform the nation. This performance differential will be a good proxy for federal spending flows that otherwise cannot be tallied on a current monthly basis.

Finally, Fairfax County is the dominant employment and economic center in Northern Virginia. Consequently, Northern Virginia's economic performance cannot deviate much from the County's. As the April data on the Washington region and Northern Virginia show, both are performing at their strongest levels since 2000. These indicators and others are still pointing to 2005 as the best year of the decade for job growth in this region following last year's peak gain in the value of output for the Washington region and nation.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Apr-05 Prelim.	Mar-05 Final	Apr-04 Final	Mar-05 to Apr-05	Apr-04 to Apr-05
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	129.54	130.84	129.53	-0.99	0.01
Leading Index (1987 = 100)	107.63	108.90	106.39	-1.17	1.16
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	602,628	601,999	604,343	0.10	-0.28
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>597,632</i>	<i>597,267</i>	<i>599,333</i>	<i>0.06</i>	<i>-0.28</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	717	723	646	-0.86	10.90
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,241</i>	<i>1,368</i>	<i>1,077</i>	<i>-9.27</i>	<i>15.26</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,074	9,691	8,501	-6.37	6.74
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>12,030</i>	<i>12,286</i>	<i>10,827</i>	<i>-2.08</i>	<i>11.11</i>
South Atlantic Consumer Confidence	135.0	142.6	114.5	-5.33	17.90
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,497	6,367	5,483	-13.66	0.26
<i>Automobile Registrations (Unadjusted)</i>	<i>5,404</i>	<i>6,470</i>	<i>5,390</i>	<i>-16.48</i>	<i>0.26</i>
Initial Unemployment Claims (Seasonally Adjusted)	873	863	1,054	1.12	-17.15
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>865</i>	<i>946</i>	<i>1,044</i>	<i>-8.56</i>	<i>-17.15</i>
South Atlantic Consumer Expectations (Unadjusted)	93.7	107.9	95.3	-13.16	-1.68
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	584,182	581,156	577,638	0.52	1.13
<i>Total Labor Force (Unadjusted)</i>	<i>583,247</i>	<i>578,273</i>	<i>576,714</i>	<i>0.86</i>	<i>1.13</i>
Employed Labor Force (Seasonally Adjusted)	568,458	566,544	564,982	0.34	0.62
<i>Employed Labor Force (Unadjusted)</i>	<i>568,773</i>	<i>564,419</i>	<i>565,296</i>	<i>0.77</i>	<i>0.62</i>
Unemployed Labor Force (Seasonally Adjusted)	15,724	14,611	12,656	7.62	24.25
<i>Unemployed Labor Force (Unadjusted)</i>	<i>14,474</i>	<i>13,854</i>	<i>11,418</i>	<i>4.48</i>	<i>26.76</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.69	2.51	2.19	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.48</i>	<i>2.40</i>	<i>1.98</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

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We are on the web at:
[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)

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